TESTIMONY OF James Fleming

President Connecticut Automotive Retailers Association

Public Hearing of Joint Committee on Commerce

concerning

S.B. No. 445 (RAISED) AN ACT CONCERNING AN ANALYSIS OF THE RECOMMENDATIONS OF THE COMMISSION ON FISCAL STABILITY AND ECONOMIC GROWTH.

March 20, 2018

My name is James Fleming. I am the president of the Connecticut Automotive Retailers Association (CARA.) CARA, founded in 1921, is one of the oldest trade associations in our state and represents the interest of the 270 new car dealers in Connecticut. Our members are almost exclusively generationally owned family businesses. In 2017, CARA dealers had sales of 10 Billion dollars’ representing over 17% of the total retail sales in this state. CARA dealers directly employ over 14,397 people in good jobs with an average salary of $63,000 dollars per year with a combined payroll of $880 million and $327 million paid in state and federal income taxes. These are good jobs, highly skilled with health benefits and pension plans. Our industry is also directly responsible for another 14,747 jobs in associated businesses such as delivery services, radio, newspaper and TV advertising, parts, service etc. Taken as a whole, auto retailers are one of the state’s largest employers. Any decision that impacts our industry must be carefully weighed.

I am here to testify in support of retaining the Auto trade-in allowance pursuant to Section 12-430(4) of the Connecticut General Statutes. Although the Commission report, does not highlighting any specific exemptions that should be retained or deleted the report does recognized the importance of retaining exemptions based on “sound policy rationale (e.g., cost of collection, avoidance of cascading and redundancy, and conformity with federal or state law)” *on which the trade in allowance is clearly based. This sales tax trade in exemption clearly fits the commissions criteria for retention as it is well thought out and designed to avoid cascading and redundancy in this case the double taxation of product, an automobile, from being taxed twice once when originally purchased and then again when its value traded in towards the sale of a new vehicle. This exemption has been on the on the books in our state since 1961. It is sound policy rationale policy nearly universal throughout the United States conformity with federal or state law in nearly every state with a sales tax by providing an exemption from the sales tax for the value of a trade-in vehicle during a sales transaction for the purchase of a new or used motor vehicle. In fact, if it were not the law in our state today, I advocate that this this committee(s) establish this exemption as a pro-growth, pro-job and pro-tax revenue generator for our state. Any decision eliminating the Auto Trade allowance is short sighted - while it may initially seem to add more dollars to the state budget – it will result in
fewer cars being sold, producing less sales tax, loss of auto retailing jobs and increase consumers cost to finance a vehicle. (Please see the attached testimony submitted to the commission on January 23, 2018.)

With respect to the legislature adopting any recommendation for an additional sales tax imposed at the local or regional level I would urge caution and rejection of such a proposal as it will have a negative impact on revenue collected under the state’s sales tax with respect to automotive sales. Which, as noted, accounts for over 17% of all retail sales in our state and the concurrent sales tax associated with those transactions. Respectfully on a cautionary note, the policy makers should be aware for example that not all the counties in New York have the local county sales tax option on vehicles because of reservations that the effect of such additional taxes will force New York consumers to cross into Fairfield and Litchfield counties in Connecticut for purchases, thus hurting New York retailers and the jobs associated with those retailer businesses. In a geographically small state like Connecticut, a local or regional sales tax will on vehicles costing thousands of dollars and involving long term auto loans will undermine auto retailers by putting them at a distinct and unrecoverable price disadvantage with retailers located just steps away in neighboring municipalities and states that have a lower sales taxes.

In the case of inter-town sales tax discrepancies dealerships that are physically located in towns with higher sales tax rates will without question lose business and associated employment to towns where the tax on the vehicle and service work tax at a lower rate is.

The second concern and perhaps the gravest unintended consequences for the state will be the resultant state sales tax loss due to municipal sales taxes forcing sales and service across the state line to NY, Mass and RI. Consumers will cross the border to avoid the higher municipal sales taxes and financing costs. And, although such cross-border sales will eventually pay the Connecticut sales tax upon registering the vehicle in Connecticut, the larger concern is that consumers tend to have their vehicle serviced at the dealership where they purchase the car. Such taxable services performed in other states will translate into a loss of significant Connecticut sales tax revenue and employment in local Connecticut dealerships. Over 30% of a dealership’s income is in service/repair work. Considering that sales in our state by just new car dealerships in 2017 approximated 10 billion dollars; if just 5% of existing service, warranty and repair work crosses the border into our neighboring states the loss in Connecticut state sales tax will be in excess of $15,000,000 dollars.

Thank you for consideration of my views on this important topic.

*Page 44, Exemptions, CONNECTICUT COMMISSION ON FISCAL STABILITY AND ECONOMIC GROWTH
FINAL REPORT MARCH 2018
Oral TESTIMONY OF James Fleming
President Connecticut Automotive Retailers Association
Commission on Fiscal Stability and Economic Growth
January 23, 2018

Good afternoon chairpersons Smith and Patricelli, members of the Commission - my name is James Fleming. I am the president of the Connecticut Automotive Retailers Association (CARA.) CARA, founded in 1921 is one of the oldest trade associations in our state and represents the interest of the 270 new car dealers in Connecticut. Our members are almost exclusively generationally owned family business. In 2017, CARA dealers had sales of 10 Billion dollars’ representing over 17% of the total retail sales in this state. CARA dealers directly employ over 14,397 people in good jobs with an average salary of $63,000 dollars per year with a combined payroll of $880 million and $327 million paid in state and federal income taxes. These are good jobs, highly skilled with health benefits and pension plans. Our industry also directly responsible for another 14,747 jobs in associated businesses such as delivery series, radio newspaper and TV advertising, parts, service etc. Taken as whole auto retailers are one of the state’s largest employers. Any decision that impacts our industry must be carefully weighed.

That is why I am here to testify in support of retaining the Auto trade-in allowance in the sales tax pursuant to Section 12-430(4) of the Connecticut General Statutes. This sales tax credit is well thought out and has been on the books in our state since 1961. This type of credit is nearly universal throughout the United States and provides an exemption from the sales tax for the value of a trade-in vehicle during a sales transaction for the purchase of a new or used motor vehicle. In fact, if it were not the law in our state today, I would be here advocating that this commission recommend it as a pro-growth, pro-job and pro-tax revenue generator. Any decision eliminating the Auto Trade allowance is short sighted - while it may initially seem to add more dollars to the state budget – it will result in fewer cars being sold, producing less sales tax, loss of auto retailing jobs and increase consumers cost to finance a vehicle.

As I noted auto retailing sales by new car dealers in our state last year totaled $10 billion dollars. That’s good news, the bad news is that for some reason in Connecticut unlike most other states that number has been dropping steadily in the last 3 years. This commission may have greater insight into why that is happening, but I assure you it is happening.

Please see the attached graph: In 2015 new car dealership sales totaled $11.4 billion dollars, in 2016 it dropped to $10.3 billion and although the final numbers for 2017 are not yet available, it is conservatively estimated that Connecticut sales they will drop to
$10 Billion. Finally, based on the industry standard Seasonally Adjusted Annual Rate (SAAR) for SAAR figure nationally will drop by 2% in 2018 which in Connecticut will translate into sales dropping in to the $9 billion range.

It would be wrong-headed at this time for the state to adopted tax changes to make it more difficult for consumer to qualify for credit and more expensive to sell cars in our state. This exemption is most commonly referred to as the “credit for trade” sales tax exemption. IT IS IN EFFECT THE SINGLE LARGEST PORTION OF THE DOWNPAYMENT CONSUMERS MAKE WHEN OBTAINING CREDIT TO PURCHASE OR LEASE A VEHICLE. Very simply and significantly as any banker or finance person on this commission fully understands the trade in allowance eases the amount of cash a consumer must come up with to qualify for a loan.

For example: taxing a trade-in vehicle worth $21,000 at 6.35% reduces the amount towards the down payment by $1,333.50 which in turn increases the monthly payment by $27.00 or $1,620.00 over the course of a 60-month loan. Credit for trade is vital to consumers and is essential to the viability of Connecticut’s automotive retail sector. I urge the Commission to not only support maintaining this provision in our tax laws but to actively oppose any effort to remove it from the books. The consequences of this will result in significant job loss at existing dealership, a substantial reduction in vehicle sales and a reduction in sales tax revenue due to deferred vehicle sales, a drop in the average vehicle sale price chosen by consumers and lost sales tax revenue for maintenance services and repair parts as consumers purchase and service vehicles out of state in order to take advantage of more favorable credit terms and lower month payments in Massachusetts, New York and Rhode Island where dealers will apply their states credit for trade provision.

Repealing the trade in allowance will significantly reduce the number of vehicles sold and the associated sales tax collected that the state desperately needs to help balance its budget. Finally given that Connecticut is geographically situated so close to 3 other states consumers always have the option to cross the border thus reducing sales to Connecticut businesses and jeopardizing the jobs of the people we employ.

**CARA estimates State revenue loss as follows:**
$19,250,000 in lost sales tax on parts and service business.
$91,200,000 in lost sales taxes as consumers defer purchase or opt to purchase less expensive vehicles.
$1,700,000 in state income taxes due to job loss at dealerships.
$5,000,000 in lost revenue from the newly enacted $35-dollar Connecticut Dealer Trade in Fee

**CARA estimate State Job losses as follows:**
Dealerships will lose 1439 dealership jobs. We will lose sales and the salespersons jobs. We will lose auto tech jobs because people who buy at out-of-state dealerships will service the vehicles out of state, at the dealership where they purchased the
vehicle. Dealership employees will lose $88,000,000 in wages. Indirect job loss from parts and material suppliers for lost service work will likely equal another 1400 jobs.

**Consumers... will lose:**
Consumers will on average pay an additional $1,680 dollars on the price of a 5-year auto loan because of the lost value of the trade-in down payment towards the purchase of a new vehicle.

**Consumers... lose safety inspections:**
Many people don’t realize that Car Dealers are mandated as part of the license process to do a full safety inspection on used cars. As more consumers opt for private party sales due to the lost trade-in exemption used vehicles will go on the road without safe brakes, tire, steering and other safety features being inspected. **Note** - DMV only performs safety inspections on cars 10 years of age and older. The cost for DMV to do safety inspections rather than dealers would be prohibitively costly and would certainly further exacerbate the state budget deficit.

Respectfully, I urge the Commission to retain the automobile sales tax trade-in allowance as part of our state tax policy and job retention efforts.

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**Trade in Allowance “Credit for Trade”**

Passage of a repeal of the trade in allowance will:

- Cause the state to lose millions of dollars in revenue NOT raise revenue
- Mean the loss of hundreds of good paying jobs at existing dealerships
- will increase the cost to finance a car and hurt sales
- Jeopardize safety of used vehicles on Connecticut roads

And . . .

- CARA dealers also pitched in without objection to the $35-dollar dealer trade-in fee adopted in the October session that is anticipated to raise
$14 million – A surge of out-of-state sales will greatly reduce anticipated income from this fee.